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APPROVED: AMB:RWILSON

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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 002402

SIPDIS

TREASURY FOR INTERNATIONAL AFFAIRS - JROSE

E.O. 12958: DECL: 09/23/2017

TAGS: [ECON](#) [EFIN](#) [TU](#)

SUBJECT: NEW TURKISH STATE MINISTER FOR TREASURY MEHMET
SIMSEK

Classified By: Ambassador Ross Wilson for reasons 1.4 (b) and (d)

11. (C) Summary. Newly-appointed State Minister for Treasury Mehmet Simsek said the reelected AKP has a comprehensive reform roadmap to create a modern, competitive, performance-based Turkish economy. The highest priorities are proceeding with a revised version of the Social Security reform package, finishing the year within budget, increasing research and development spending to two percent of GDP, and reducing the burden of unemployment. Simsek noted the need to create "fiscal space", or budget surpluses, to pay for longer-term expensive reforms such as tax cuts to bring more companies from the informal economy into the mainstream, and energy reforms. The AKP's constitutional reform package is a priority, although side issues may delay its implementation. Simsek understands the need to attract foreign investors and is committed to a level playing field for foreign investors in Turkey. End Summary.

12. (U) Ambassador paid a courtesy call on new State Minister for Treasury Mehmet Simsek on September 18. Simsek was accompanied by Treasury Undersecretary Ibrahim Canakci.

13. (C) Simsek said the newly-reelected AKP government has a comprehensive reform roadmap, with a long-term goal of creating a modern, competitive, performance-based Turkish economy. The GOT will go forward as soon as possible with a revised version of the Social Security reform. While they did not agree with the constitutional court's decision striking down part of the last version "all citizens are equal under the constitution, but civil servants are more equal than others", he said the reform is too important to be delayed and the revised text is essentially complete.

14. (C) Simsek emphasized the importance of maintaining fiscal discipline over the next three months and finishing the year

within budget, which would lay the groundwork for a strong fiscal package in 2008. The government is sticking to the budget because it believes it is the right thing to do, not just because the IMF wants it. He emphasized the need to create "fiscal space", or budget surpluses, to fund other needed reforms. The AKP made only two economic promises in the campaign: to increase research and development spending to two percent of GDP, and to reduce the burden of unemployment. It will meet both of those commitments, Simsek said, but both will be expensive.

15. (C) The next reform Simsek mentioned was energy. He noted the need to give price incentives (i.e., raise electricity rates, which have been frozen for five years), but also said that Turkey needed diversification and security of supply. "We have to make sure there are no supply bottlenecks down the road that could slow growth." Next, he highlighted labor market reforms as critical for competitiveness. Turkish labor markets are rigid and burdensome, he said, and the education system needs to adapt to meet the needs of the business sector. Judicial reform also is high on the list, including greater efficiency and transparency, as well as introducing a commercial code. The informal sector is the biggest barrier to increasing productivity, but reducing the informal economy is impossible with the high tax burden. Reducing the tax burden, however, requires even greater "fiscal space" for reform.

16. (C) Simsek said the government would like to get constitutional reform out of the way quickly, but expressed frustration that the AKP's constitutional reform package has become bogged down by two side issues, religious education and students wearing headscarves. In his view, constitutional reforms are essential to the government's economic reform agenda because "it is impossible to make the administrative reforms we need to create a first-world administrative infrastructure without constitutional reform".

(Note: In a conversation last month, before being named minister, Simsek told us that constitutional reform was the government's highest priority and that they would proceed with constitutional reform first and the economic package second. While he still believes the constitutional reforms are critical, he now sees at least some major economic reforms going forward with or without the constitutional package. End note.)

17. (C) Ambassador noted the Innovation Conference held in May 2007, which focused on ways to build higher technology industry in Turkey, and suggested that a second innovation conference focused on pharmaceuticals and the development of intellectual property rights would seem to fit well with the government's strategy. Simsek said he liked the idea and agreed on the need to improve Turkey's IPR regime if it wants to "move up the productivity food chain".

18. (SBU) Ambassador raised the tax problems of U.S. financial company Raymond James and expressed the hope that solutions can be developed that will resolve the company's legal issues while ensuring it remains in business. It would not be a positive signal to foreign investors if a U.S. financial services company was forced out of business by the tax authorities. Simsek was unaware of the case, but expressed a firm commitment to a level playing field for foreign investors. He said he would make inquiries at the Revenue Administration and advise us on the situation from their perspective.

19. (C) Ambassador also outlined for Simsek and Canakci the event proposed by EEB Assistant Secretary Dan Sullivan on the margins of the October IMF/World Bank conference to showcase Turkey's reforms and trade and investment opportunities. Simsek said he liked the idea and very much wanted to participate, but could not commit to the October 19 proposed date yet. He noted he would have to present the GOT's 2008 budget on October 17, and that an IMF team was scheduled to be in Ankara that week. Simsek said he unfortunately would miss A/S Sullivan's Ankara visit due to his travel to the U.S. with the Foreign Minister. We suggested Sullivan could

meet with U/S Canakci and brief him on the proposal.

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WILSON